

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ADP-00 AID-20 CEA-02 CIAE-00 COME-00

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INFO AMEMBASSY CANBERRA

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TAGS: EFIN, OECD

SUBJECT: 99 TH SESSION COMMITTEE FOR INVISIBLES TRANSACTIONS

REF DAF / INV/73/35

1. SUMMARY. INVISIBLES COMMITTEE JUNE 14, 1973 EXAMINED AUSTRALIAN REQUEST FOR DEROGATION TO CAPITAL MOVEMENTS CODE AND REQUESTED SECRETARIAT TO PREPARE ECONOMIC ANALYSIS OF QUESTION FOR CONSIDERATION AT NEXT MEETING IC JULY 16-17, 1973. END SUMMARY.

2. AGENDA ITEM 5. INVOCATION OF DEROGATION BY AUSTRALIA: IC EXAMINED REQUEST BY AUSTRALIA FOR DEROGATION (REFDOC) AND SUPPORTING EVIDENCE THEREIN AFTER RECEIVING ORAL STATEMENT FROM AUSTRALIAN DEL CONCERNING GENERAL ECONOMIC SITUATION IN AUSTRALIA AS RELATED TO NEED FOR CONTROLS ON CAPITAL IMPORTS. COMMITTEE TOOK AS ITS PRIMARY GOAL EFFORT TO DETERMINE WHETHER OR NOT MEASURES TAKEN LIMITED OFFICIAL USE

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BY AUSTRALIA WERE APPROPRIATE. IT DESIRED A SHOWING THAT OTHER MEASURES ALREADY UNDERTAKEN BY AUSTRALIAN AUTHORITIES WHICH WERE NOT INCONSISTENT WITH CODE HAD BEEN INSUFFICIENT TO PREVENT KIND OF DOMESTIC ECONOMIC DISTORTION ENVISIONED UNDER 7(B) DEROGATION. WHILE SWEDISH AND FINNISH EXPERTS INDICATED THEY COULD SUPPORT AUSTRALIAN DEROGATION REQUEST EVEN WITHOUT ADDITIONAL ANALYSIS BY SECRETARIAT, MAJORITY REQUESTED THAT SECRETARIAT PREPARE ADEQUATE ECONOMIC AND BALANCE OF PAYMENTS ANALYSIS AND ESTIMATE OF EXTENT TO WHICH EACH CONTROL WOULD INFLUENCE CAPITAL FLOWS AND DOMESTIC ECONOMIC SITUATION.

3. AUSTRALIAN DEL DESCRIBED GENERALECONOMIC SITUATION AND SUBSTANTIAL MOVE TOWARD SURPLUS IN AUSTRALIAN BALANCE OF PAYMENTS WHICH HAD LED TO IMPLEMENTATION OF INWARD CAPITAL CONTROLS. MANY EXPERTS SHARED OPINION AUSTRALIAN ECONOMY DID NOT SEEM TO BE SUFFERING KIND OF OVERHEATING ENVISIONED AS BASIS FOR 7(B) DEROGATION. AUSTRALIAN DEL NOTED THAT CONTROLS WERE ALSO NECESSARY DUE TO ESTABLISHMENT OF NEW FINANCIAL INTERMEDIARIES IN AUSTRALIA WHICH MORE CLOSELY CONNECTED AUSTRALIA TO INTERNATIONAL CAPITAL MARKET. HE NOTED THAT SEPT. 1972 EMBARGO ON SHORT- TERM BORROWING ABROAD HAD NOT BEEN SUFFICIENT AND THAT FEBRUARY 1973 MEASURES EXTENDED EMBARGO TO OTHER TERMS AND TYPES OF CAPITAL (AS NOTED IN REFD0C) AND INSTITUTED VARIABLE DEPOSIT SCHEME ON LONG- TERM FLOWS SIMILAR TO GERMAN BARDEPOT. HE NOTED THAT SINCE CONTROLS HAD BEEN EXTENDED ON FEB 1, 1973 THERE HAD BEEN SUBSTANTIAL TURN- AROUND IN BALANCE OF PAYMENTS. BETWEEN JULY- DECEMBER 1972 AND JANUARY 1973 BALANCE HAD MOVED FROM SURPLUS OF ROUGHLY 1.3 BILLION AUSTRALIAN DOLLARS TO DEFICIT OF NEARLY 150 MILLION AUSTRALIAN DOLLARS.

4. REGARDING COVERAGE OF CONTROL PROGRAM, AUSTRALIAN DEL POINTED OUT THAT EMBARGO AND VARIABLE DEPOSIT SCHEME DID NOT APPLY TO EQUITIES. FUTHERMORE, BORROWING EMBARGO WOULD NOT APPLY TO SIGHT DEPOSITS WITH TRADING BANKS (ROUGHLY EQUIVALENT TO COMMERCIAL BANKS) BUT ONLY TO FIXED OR TERM DEPOSITS. SOME EXPERTS LIMITED OFFICIAL USE

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WONDERED ABOUT ADVISABILITY OF THIS EXCLUSION, SINCE ANY UNDUE BUILDUP IN SIGHT DEPOSITS WOULD BE INDUCED PRIMARILY BY POTENTIAL FOR EXCHANGE RATE CHANGES. IT WAS NOTED THAT APPLICATION OF SURVEILLANCE REQUIREMENTS FOR INTER- COMPANY ACCOUNTS, (PARA C, REFD0C) WOULD BE ACCOMPLISHED THROUGH SYSTEM OF REPORTS TO BE SUBMITTED BY COMPANIES. AUSTRALIAN EXPERT POINTED OUT THA MEASURES

WERE NOT SEEN AS LONG- TERM STRUCTURAL MOVE, BUT WERE MORE RELATED TO CURRENT UNCERTAINTIES IN INTERNATIONAL MONETARY FIELD, EXISTENCE OF CONTINUING LARGE DOLLAR OVERHANG AND CONTINUED RISK OF DESTABLIZING CAPITAL MOVEMENTS. HE ACKNOWLEDGED THAT INTEREST RATE DIFFERENTIALS HAD NOT BEEN GREAT. ALSO, HE NOTED THAT WHILE HIS AUTHORITIES BELIEVE MOST CAPITAL INFLOWS HAD BEEN GENUINE RATHER THAN SPECULATIVE OVER PAST 18 MONTHS (BASED ON FACTS KNOWN AT PRESENT). SOME SPECULATIVE ELEMENT WAS UNDOUBTEDLY PRESENT.

5. SEVERAL EXPERTS SUGGESTED THAT MEASURES TAKEN BY AUSTRALIA NO LONGER SEEMED APPROPRIATE IN LIGHT OF OTHER CHANGES WHICH HAVE OCCURRED SUCH AS REVALUATION OF AUSTRALIAN DOLLAR AND PRESENT CURRENCY FLOAT. THEY WONDERED WHY IT COULD NOT BE POSSIBLE, ESPECIALLY IN ABSENCE OF ANY INDICATION OF LARGE SPECULATIVE INFLOWS, FOR MEASURES TO BE DROPPED. IT WAS EMPHASIZED BY MANY THAT MAJOR DIFFERENCE BETWEEN RECENT AUSTRIAN, SWISS AND GERMAN DEROGATIONS AND PRESENT AUSTRALIAN ONE WAS THAT IN LATTER CASE THERE WAS EVIDENTLY NO OVERHEATED DOMESTIC ECONOMY AND THERE EVIDENTLY HAD BEEN NO LARGE SPECULATIVE CAPITAL INFLOWS. THEY EXPRESSED FEAR THAT COUNTRIES WERE INCREASINGLY VIEWING INTERNATIONAL CAPITAL MOVEMENT AREA AS ONE IN WHICH CONTROLS SHOULD AUTOMATICALLY BE IMPLEMENTED AS NORMAL SUPPLEMENT TO DOMESTIC ECONOMIC POLICY, EVEN WHEN IT WAS NOT CLEAR THAT SPECIFIC INTERNATIONAL CAPITALMOVEMENTS, AGAINST WHICH CONTROLS WERE LODGED, HAD HAD ANY ADVERSE EFFECT ON DOMESTIC MONETARY POLICY, DOMESTIC LIQUIDITY OR GENERAL DOMESTIC ECONOMIC SITUATION.
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